

Iberoamerican Tax Moot Court 2025

Case Competition

THE “LOVEcal” CASE

I. The facts

MACRONONIA is the country of love. That is why it is no surprise that more than fifteen years ago, a group of young computer scientists, psychologists, and sexologists began developing "LOVEcal" which is now the largest dating app in the world. LOVEcal is the most successful and profitable product of the LOVERSAL Group, whose ultimate parent entity, LOVEUPE *société par actions*, resident in MACRONONIA, has been exploiting the intangible asset for years.

LOVEcal pioneered the freemium dating app model. The app is free to download and use for basic swiping/matching, and has so far monetized through premium subscriptions. The app's functionality is simple. The user creates a profile and sets their preferences. Then, the app displays profiles one by one, and users swipe right if they are interested or swipe left if they are not. If both users swipe right, a match is made, and they can start chatting. LOVEcal offers three tiered subscription plans – Lovecal Plus, Lovecal Gold, and Lovecal Platinum. In the market, there are countless dating apps, but LOVEcal has a unique feature that is also the key to its competitive advantage. The specialists in the group conduct in-depth studies on the distinctive characteristics of human relationship models in each country where the app is launched and adapt the app's technical and content features to those specific traits. This has allowed LOVEcal to establish itself in jurisdictions where standard dating apps had little success and to outperform smaller local apps with more modest technical capabilities. The app's privileged position allowed LOVEUPE to be present in more than seventy countries and report global revenues amounting to 1600 million Cowardeuros (C€s), the common currency of many countries in MUSEOPIA, the continent where MACRONONIA is located.

Last year, the group's accountants warned LOVEUPE's CEO, CMO, and CTO that the app's revenue figures in WEIRDONIA remained very modest and were dramatically declining. The Board of Directors took action and decided to send a team of psychologists and sexologists from SHRINKInc.—another company within the LOVERSAL group—to WEIRDONIA to investigate on-site what might be going wrong. The fifteen professionals from SHRINKInc. spent February, March, and April in the country and presented a damning report to the Board: the app was not adapted to the unique characteristics of WEIRDONIA's relationship model, and a radical change in its content and functionality was necessary. They summarized their findings in the document "Ten Weird Changes to Be Done in WEIRDONIA." The Board places absolute trust in its psychologists, which is why it decided to send a team of 30 technicians, IT specialists, and psychologists from INGPLUMBERS Inc.—another company within the LOVERSAL group—to implement the technological changes required by the document on-site. After working throughout the month of May on these changes, the results began to show. The newly implemented subscription plan, "Lovecal Weirdontailored Plus," achieved enormous success, allowing LOVEUPE to generate €53 million in revenue from new subscriptions between June and December.

CSUNONIA is one of the MUSEOPIA countries where LOVEcal's subscription plans have been most successful. Its population is very shy and tends to have limited in-person interactions, especially during the long months of its harsh winter. Additionally, LOVEcal entered the country very early, preventing the development of local apps offering similar services. This *first-mover advantage* has effectively turned LOVEcal into a near-monopoly in the online dating app sector. In 2025, LOVEcal subscriptions generated €83 million C€ in revenue for LOVEUPE from users based in CSUNONIA.

The strategic minds at LOVERSAL Group have been considering a business model shift for some years, gradually introducing alternative monetization strategies beyond pure subscription revenue. To test these strategies, they have selected jurisdictions where subscription revenues are relatively low. One such country is BINGENONIA, a hot and open developing nation where people socialize joyfully in the streets, and monogamous traditions faded long ago. Very few people in BINGENONIA pay for LOVEcal's Plus, Gold, or Platinum subscriptions. In fact, in 2025, LOVEUPE generated only €0.4 million C€ from subscription payments by users in BINGENONIA. However, many use the free version as just another way to connect and interact. In 2025, LOVEUPE introduced advertising-based monetization strategies within the app. In BINGENONIA, the group implemented two key programs: *Swipe Ads* – Local businesses promoted their goods and services by embedding ads into the swipe flow, making them appear like regular profiles. Non-paying users could swipe right (interested) or left (ignore). Through *Swipe Ads*, LOVEUPE billed local businesses (residents in BINGENONIA) €4.6 million C€ in 2025. *Display Ads in Explore* – Advertisements were shown in the Explore section, where users search for connections based on shared interests. Through *Display Ads in Explore*, LOVEUPE billed local businesses (residents in BINGENONIA) €2.8 million C€ in 2025. Both advertising programs work in a very similar manner from an operational standpoint. Local advertisers sign standard advertising contracts with LOVEUPE, detailing the essential conditions and technical aspects of the implementation. After that, the deployment process is fully automated, leveraging the same algorithms that power LOVEcal. Ads are then displayed within the swipe flow or the Explore section, targeting users based on the profile data that LOVEcal collects.

II. Tax Treaties

There is a tax treaty in force between MACRONONIA and WEIRDONIA that follows the 2011 UN Model Tax Convention in its entirety, except for Article 5(3)(b), which reads as follows:

3. *The term “permanent establishment” also encompasses:*

[...]

(b) *The furnishing of services, including consultancy services, by an enterprise through employees or other personnel engaged by the enterprise for such purpose, but only if activities of that nature continue (for the same or a connected project) within a Contracting State for a period or periods aggregating more than four months within any twelve-month period.*

The method for relieving double taxation agreed upon by the Contracting States is the credit method in accordance with Article 23B of the UN Model Tax Convention 2011.

There is a tax treaty in force between MACRONONIA and CSUNONIA following the 2017 OECD Model Tax Convention in its entirety. The method for relieving double taxation agreed upon by the Contracting States is the credit method in accordance with Article 23B of the OECD Model Tax Convention 2017.

There is a tax treaty in force between MACRONONIA and BINGENONIA following the 2017 UN Model Tax Convention in its entirety. The maximum rate agreed upon the Contracting States under article 12A(2) of the treaty is 10%. The method for relieving double taxation agreed upon by the Contracting States is the credit method in accordance with Article 23B of the UN Model Tax Convention 2017.

III. Domestic Law

Since the 1970s, the General Tax Code of MACRONONIA has included the following provision:

Article 25bis Income Taxes paid abroad.

Individuals and entities residing in MACRONONIA receiving foreign-source income subject to income tax in the country of origin, have the right to deduct from the amount of MACRONONIAN income tax the tax paid abroad, regardless of its designation, provided that it was levied on the same income. However, the deduction may not exceed the amount of tax the taxpayer is required to pay in MACRONONIA on that same income.

Ten years ago, MACRONONIA introduced the following provision in Article 22 of its Corporate Income Tax Act (commonly known as "the 22"):

“Article 22. Exemption of Income Earned Abroad Through a Permanent Establishment

1. Positive income earned abroad through a permanent establishment located outside MACRONONIAN territory shall be exempt when the Permanent Establishment has been subject to, and not exempt from, a tax of an identical or analogous nature to this tax, with a nominal rate of at least 10 percent.

Positive income derived from the transfer of a permanent establishment or the cessation of its activity shall also be exempt, provided that the taxation requirement mentioned above is met.

2. An entity shall be deemed to operate through a permanent establishment abroad when, by any legal means, it continuously or habitually has facilities or workplaces outside MACRONONIAN territory where it carries out all or part of its activities, or acts through an agent authorized to contract in the name and on behalf of the taxpayer, provided that such agent habitually exercises these powers. In particular, the following shall be considered permanent establishments: Head offices, Branches, Offices, Factories, Workshops, Warehouses, stores, or other business premises, Mines, oil or gas wells, quarries, agricultural, forestry, or livestock operations, or any other place of exploration or extraction of natural resources, construction, installation, or assembly projects whose duration exceeds six months.

If the permanent establishment is located in a country with which MACRONONIA has signed a double taxation treaty that applies, the provisions of that treaty shall prevail.

CSUNONIA is a founding member of the OECD, but it has long recognized that, when it comes to digital services, it is a net importer. Frustrated with the unfulfilled promises of the Inclusive Framework and anticipating the almost certain failure of Amount A of Pillar One, its politicians decided to take action. Under the slogan "We Are Source Too", its newly appointed Chancellor, Frederic Schmertz, announced a new digital services tax, which was to be fast-tracked for approval and set to take effect on January 1, 2025¹.

WEIRDONIAN rules on taxation of non-residents establish the following:

Article 9 Permanent Establishment.

A natural person or entity shall be deemed to operate through a permanent establishment in WEIRDONIAN territory when, by any title, it has, on a continuous or habitual basis, facilities or workplaces of any kind in which it carries out all or part of its activity, or acts through an agent authorized to contract in the name and on behalf of the taxpayer, who habitually exercises such powers. In particular, the following shall be considered as constituting a permanent establishment: management headquarters, branches, offices, factories, workshops, warehouses, stores or other business establishments, mines, oil or gas wells, quarries, agricultural, forestry, or livestock operations, or any other place of exploration or extraction of natural resources, as well as construction, installation, or assembly projects whose duration exceeds six months.

Article 11. Items of earned in the territory of WEIRDONIA.

The following are considered items of income earned in WEIRDONIAN territory:

(...)

11 (f). Services.

Payments for services if the payer is a resident of WEIRDONIA or if the person paying the fees, whether that person is or not a resident of WEIRDONIA, has in WEIRDONIA a permanent establishment or a fixed base in connection with which the obligation to pay the fees was incurred, and such fees are borne by the permanent establishment or fixed base.

BINGENONIAN rules on taxation of non-residents establish the following:

Article 27. Items of earned in the territory of BINGENONIA.

The following are considered items of income earned in BINGENONIAN territory:

(...)

27 (q). Technical Services.

Payments for technical services if the payer is a resident of BINGENONIA or if the person paying the fees, whether that person is or not a resident of BINGENONIA, has in BINGENONIA a permanent establishment or a fixed base in connection with which the

¹ The relevant parts of CSUNONIA's Digital Services Tax Act to be found in Annex I.

obligation to pay the fees was incurred, and such fees are borne by the permanent establishment or fixed base.

Technical services are exclusively those that require a special skill from the provider for their performance.

In MACRONONIA, the nominal corporate tax rate is 28 percent, while in CSUNONIA, it is 23 percent and in WEIRDONIA 20 percent.

IV Pleadings.

Benedictus Stockholmsynd, a tax inspector on leave from MACRONONIA and, until recently, Global Tax Manager of LOVERSAL Group, always lived by the motto: "*Love the Tax Authorities as Yourself.*" Following this principle, LOVEUPE has declared and paid taxes in all the jurisdictions where it operates at the highest rates that could reasonably be expected. Specifically, in 2025: 1) It registered a Permanent Establishment (PE) in WEIRDONIA, declared 31 million C€ as attributable profits, and paid 6.2 million C€ in Corporate Income Tax for Non-Resident Entities. 2) When required by CSUNONIA's legislation, LOVEUPE complied with all formalities and paid 2.49 million C€ in Digital Services Tax for the 2025 fiscal year. 3) The taxpayers paying for advertising services and residing in BINGENONIA withheld a total amount of 740,000 C€ as Corporate Income Tax (limited tax liability). No tax was paid in BINGENONIA on the 0.4 million C€ collected from BINGENONIAN subscribers.

Benedictus Stockholmsynd was removed from his position in February 2026, and his successor, Bravius Boldsquared, enraged upon seeing all that had been paid the previous year. Since the tax legislation of WEIRDONIA, CSUNONIA, and BINGENONIA made it extremely difficult to rectify self-assessed tax returns, Bravius proposed trying to partially correct what he believed were errors by filing LOVEUPE's Corporate Income Tax return in MACRONONIA in 2026. In that return, the income earned in WEIRDONIA was declared exempt, and the taxes paid in CSUNONIA and BINGENONIA were credited.

Months later, the tax authorities of MACRONONIA initiated an audit procedure against LOVEUPE, which resulted in an additional corporate tax liability of 11.91 million C€ to be paid. This was due to the tax authorities determining that the profits earned in WEIRDONIA were not exempt in MACRONONIA, nor could the tax paid in that country be credited, and that the taxes paid in CSUNONIA and BINGENONIA could not be credited in MACRONONIA.

V Current Procedure

The case is now pending before a Court of MACRONONIA. The Court in which you are filing the petition (and before which you will later plead orally) only assesses legal arguments. Please note that the Court will not assess any procedural issue and that what is being disputed is not the amounts assessed and paid but exclusively whether the exemptions and potential credits were applicable in MACRONONIA and, if necessary, whether the taxes paid in WEIRDONIA, CSUNONIA, and BINGENONIA were actually due.